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ADMINISTRATION OF UTILITY FRANCHISES

What are the elements of a modern public utility franchise? What kind of administrative organization and what procedures are necessary to protect the public interest in service standards, rates, and extensions of service to new areas?

All public utilities that are privately organized are subject to some degree of governmental regulation, and the term "public utilities" has been construed broadly enough to include not only electricity, transit, gas, water, and telephone service, but also docks, grain elevators, and taxicabs owned and operated by private companies.

Most public utilities are regulated through state public utility commissions and through such federal government agencies as the Federal Power Commission, the Civil Aeronautics Board, and the Interstate Commerce Commission. The federal control applies to the interstate operations of public utilities while state control applies to intrastate operations.

In some states, as for example Iowa and Texas, there are no state utility commissions, and the power of regulation rests with the cities. In some states, as in Minnesota, the state commission has jurisdiction only over specified utilities, and otherwise again the cities have the power to regulate. In still other states, as in Colorado, particular cities have home-rule powers under their charters to regulate utility rates and service within their areas. In Ohio cities have home-rule power to regulate in the first instance, but the companies have recourse to the state commission if they consider the municipal action oppressive and unreasonable; the state commission then proceeds to fix rates under statutory-fixed standards and procedures. Whatever the rights of municipal action, they are an integral part of the state power to regulate in the public interest where a private company has a monopoly in furnishing a recognized public service.

Within this framework of federal and state regulation, the cities have an important job to do in utility regulation, particularly in the development and administration of workable franchises. The city also has an obligation to represent the public interest in proceedings and hearings with utility companies and before state and federal regulatory agencies.

Where the city itself owns and operates a utility system, it assumes outright the obligation to assure proper service at reasonable rates to the homes, business, and industry within municipal boundaries. But where the city has franchised a company to perform the same public function, it is usually not charged directly with the same duty, and so too often permits the company to evade the delegated public service obligations.

Obviously the responsibility of the city for proper utility service and rates is intrinsically the same whether it owns and operates a utility or delegates the function to a company. Hence, in that delegation it should prescribe appropriate and exact terms and should exercise precise and systematic administration.

In the opinion of many, state regulation of public utilities has been less than satisfactory for the protection of consumer interests. A number of reasons have been advanced, including restrictive decisions handed down by the United States Supreme Court, inadequate constitutional and statutory provisions in the individual states, the sheer volume of work and shortages of technical staff that plague every commission, and, most importantly, the inappropriate standards and procedures of regulation. It has also been charged that many commissions tend to control the larger statewide activities, while overlooking the inequities in utility operations and rates within individual cities.

Municipal regulation has been largely ineffective, too, for the following reasons: (1) most municipal franchises do not give the city sufficient authority to obtain adequate accounting and financial information on utility operations, (2) most municipal franchises do not provide any way of establishing a definite rate base, (3) most cities have not established a continuing administrative organization to regulate utilities, and (4) cities are limited in the control over utilities that operate on a regional or statewide basis.

There is no doubt that the city can play an effective role in utility regulation by helping to fill the gaps and inadequacies of state regulation, particularly through the drafting and effective administration of a modern franchise. This report discusses the part a city can play in utility regulation, outlines the necessary provisions for a public utility franchise, and suggests a program for day-to-day regulation of utility operations. Some recommendations in this report may not apply in some states because of restrictive statutes and public utility commission rules, but they should be regarded as goals for long-term utility regulation.

Essential Elements of a Public Utility Franchise

A public utility franchise is a municipal grant authorizing the occupancy of the streets and other public property for furnishing an essential community service. A franchise, in its simplest form, merely permits the company to occupy and use the streets for the service. Usually, however, the franchise also includes various terms and conditions governing the service. In effect a franchise is a special form of contract between the city and a corporation, partnership, or individual to guarantee and control the provisions of an essential public service.

The city charter should provide the framework for public utility franchises including the original adoption, revision and renewal of franchises, provision for day-to-day utility regulation, and allocation of authority and responsibility to the city council and the city's chief administrator for regulation of service.

Some city charters specifically charge the chief administrator with the duty of administering franchises. He must know the terms of the franchises and must recommend to the council any actions which should be taken so that citizens receive good utility services at reasonable rates. He should negotiate with the utilities, initiate and follow through on formal actions with state and federal bodies, and propose appropriate city council action. The administrator in other words should advise the council on problems in this field and direct the preparation and presentation of the city's position on all rate and service matters, together with the city attorney and other city officials, before the appropriate regulatory bodies.

In the state legislative field the administrator should advise the city council on needed statutory and constitutional revisions. After council approval, he should be prepared, with the city council, the city attorney, and other city officials, to work with the state municipal league to present the municipal viewpoint to the state legislature.

A privately-owned public utility operating under a franchise is in effect an agent of the city government for the performance of an essential service. For this reason, where state laws permit, the city should be a full partner of the organization with the right to inspect the books of the organization during business hours, to audit the books at specified intervals, to establish rates and rate scheuldes, to be advised of capital expenditures, and to have a voice in major policy decisions of the utility.

The franchise should contain references to pertinent state and federal statutes and should outline the source and extent of the city's rights of regulation; it must describe exactly what is being granted and the limitations of the grant. The franchise should prohibit capitalization of the franchise--that is, no asset value should be assigned to the franchise in setting the rate base.

Although the courts generally uphold the city in such cases, much litigation can be avoided if the franchise refers specifically to the city's rights and privileges. These include control of the streets, the city's taxing powers, rights of franchise, and the right to legislate on other questions which may affect the utility. Control of the streets includes the right to change the grade, surface, or drainage system; to require relocation or removal of company-owned structures located on public land; to regulate street openings; to vacate any street; and to require public supervision of tree-trimming and all construction activities taking place on public property.

The franchise document should relieve the city of liability for accidents and damage resulting from utility operations. For transportation utilites especially, the city may prescribe the amount and kind of public liability and property damage insurance. The city may also require bonds for faithful performance of the contract.

In addition to these general provisions the franchise will contain provisions relating to the rate base, the rate of return, rate schedules, term of the franchise, public supervision, municipal acquisition, and free or privileged service. While the other provisions of a franchise are important, these few form the heart of the franchise agreement itself.

Rate Base. The term "rate base" means the valuation of company property, real and personal, upon which the rate of return is set as a fixed per cent of the valuation to determine the amount of return to which the company's investors are entitled. For almost 50 years state regulatory commissions had been hampered by the United States Supreme Court decision in Smyth vs. Ames (1898) and subsequent decisisons which had the effect of giving considerable weight to reproduction cost new (less physical depreciation) in establishing the fair value of utility property with weight also assigned to working capital and going-concern value. The vagueness of such standards and the litigation they have caused have been discussed at length in many publications and will not be elaborated on here.

The United State Supreme Court, in a series of decisions culminating in Federal Power Commission vs. Hope Natural Gas Company (1944), freed state commissions from these restrictions, at least with regard to federal constitutional requirements. Commissions in many (but not all) states now are free to fix reasonable rates as they choose without regard to such items as reproduction costs, physical appraisal, going-concern value, or some of the other elements of tradional valuations. In the Hope case the Federal Power Commission adopted the "prudent investment rate base." The prudent investment base is the original cost of the properties used in service, less depreciation due to physical and functional causes, plus working capital (cash plus receivables and supplies less current liabilities.) Houston, Texas, and

Washington, D. C. use the prudent investment base for setting valuation of the utility plant. Most state commissions have tacitly adopted the prudent investment base although they may admit evidence on reproduction cost. Some states, because of statutory provisions or state court decisions, are holding to reproduction cost as a required element of "fair value."

The prudent investment base has the advantage of being easily defined and clearly determined from accounting procedures. Before the franchise is signed, the utility plant accounts should be reclassified and revised to show original cost, and subsequently all additions or retirements to the plant are entered on the books at cost so that at any time the sum of the plant-account balances shows the total original cost of the properties then in service. Depreciation schedules can be determined in advance, and net investment (original cost less depreciation) can be shown continuously by the accounts. Likewise, items entering into working capital can be subjected to regular accounting control.

The determination of these factors in advance eliminates or greatly reduces the area of conflict in rate base determination, makes possible the administration of the franchise without complicated, long drawn out investigations, and provides equal protection for public and private rights. In many court cases differences in valuation have been several million dollars; the use of the prudent investment rate base eliminates most conflicts except differences over the allocation of minor items. The major arguments in favor of the prudent investment rate base are set forth in John Bauer's "The Public Utility Franchise: Its Functions and Terms under State Regulation" (Chicago, Public Administration Service, 1946).

Rate of Return. The per cent of income which a utility is allowed to earn on the fair value of its property (or rate base) is the rate of return. The rate of return, applied as a per cent of the rate base, determines the actual dollar amount of return that a public utility is entitled to earn. The rate of return generally approved by commissions varies among different states but now ranges mostly from 6 to 8 per cent.

The rate of return must be high enough to enable utilities to get the necessary capital for development and expansion of service and to offer due inducement to investors in newly issued utility securities. It must be low enough, on the other hand, to prevent utility companies from making an "unreasonable" or "exorbitant" profit. A fair rate of return is one which will attract necessary capital, stabilize utility returns to eliminate speculation in utility securities, provide adequate depreciation and expansion reserves, and, consistent with these aims, provide good service to the public at a minimum price.

Since rate-base issues have been largely disposed of by the regulatory agencies in many states in adopting the prudent-investment rate base, determination of the fair rate of return remains as the chief and most significant factor of idefiniteness and conflict of interest. It still depends principally upon opinion evidence rather than exact records as to actual cost of money. To preclude serious conflicts of interest, the rate of return as well as the rate base can be predicated upon exact records of cost. To that end the regulatory statutes would be appropriately revised, and new franchise grants would make due provisions accordingly.

Cities that wish to follow this method should take the following steps to assure equal fairness to investors and consumers. First, establish an exact accounting rate base as described above. Second, derive a fair over-all rate of return on the rate base, taking into account such actual cost-of-money rates as shown by existing and preferred stock records, estimating what percentage rates have been fairly expected

by the existing common stockholders in furnishing capital funds, and then deriving a corresponding average rate of return to be applied to the rate base. Third, from the total amount of return as thus derived, deduct the actual interest and preferred dividend payments (plus or minus related adjustments); the remainder will be the cost of money or return fairly applicable to the existing common stock or equity investment. Fourth, divide the equity return as thus found by the number of common stock shares outstanding, and so fixing the amount of return or dividends per share to which the existing common stockholders will be entitled. Fifth, fix permanently this rate of dividends to be paid per share for future regulation and financing. Sixth, establish a return-equalization reserve to assure the full dividend payments and to protect the consumers against paying more.

With this financial set-up, all disputes both in regard to rate base and rate of return can be eliminated for the future, and rate regulation can be definitely and systematically administered. This will apply equally to subsequent as well as to existing investment. All future security issues for acquisition of new capital funds will bear fixed return provision on common stock as well as on bonds and preferred stock. With fixed dividend rates, the future varying return requirements by investors as they furnish new capital funds will be reflected inversely in the successive issue-prices of the stock; the dollar-return requirement per share of stock outstanding will always be exact and unchanged. The total return requirements of all the investors at any time will consist of all the payments of interest, preferred dividends and common stock dividends--all determined from exact records, without involving disputes and conflicts between investor and consumer interests. This set-up, with the equalization reserve, provides definitely not only for the past actual cost of money but also for future capital funds.

Rate Schedules. After establishment of the rate base and rate of return there still remains the problem of setting up the schedule of charges for utility service. A city's interest is to see that the rate schedules are reasonable and nondiscriminatory, that various types of consumers (residential, commercial, and industrial) are treated equitably, that extra charges and discounts are in line with actual unit costs, and that one class of service is not excessively subsidized by earnings from another. The laws of most states give the city council or other regulatory agency continuous jurisdiction over rate schedules. Thus only a brief reference to this authority is needed in the franchise. The rate schedule should be set forth specifically in a separate rate ordinance. In most states it can be changed at any time by the city council or other regulatory agency.

The principle of decreasing cost for added service is recognized by most electric companies and many water utilities in establishing a block meter rate. Such a schedule for electricity might provide, for example, for the first 50 kilowatt hours per month at a rate of 5 cents per kilowatt hour, the next 50 at 3 cents per kilowatt hour, and all consumption beyond that amount at 2 cents per kilowatt hour. Such a schedule gives appropriate recognition to the fact that additional units are produced at lower unit costs.

The question of one class of service subsidizing another was brought out recently in a telephone company hearing in Colorado. The city of Denver claimed in a hearing before the state commission that rates within the city were excessive and that rural users were being subsidized because rural rates were not high enough to cover the costs of service in rural areas. The same contention has been made in most telephone rate cases by larger cities, but the state commissions have ignored the claim.

Operating Ratio Method. The rate-fixing methods described above, in the opinion of many utility experts, are not equitable when applied to motor bus and truck companies. Accordingly, regulation of bus companies by state regulatory commissions and of truck companies by the federal Interstate Commerce Commission use the "operating ratio" method.

Under this method the investment in fixed capital is given little or no weight; instead the compnay is allowed a rate increase when its ratio of expenses to revenues rises above a fixed point, and rates are reduced when the ratio of revenues to expenses falls below a fixed point. Grand Rapids, Mich., is one of the first cities to adopt a franchise ordinance for a motor bus company (Grand Rapids Motor Coach Company) embodying these principles. This ordinance, available from the city clerk, is No. 1346 and was adopted Dec. 29, 1952.

Electric, gas, water, railroad, and street-car utilities require a very large investment in fixed capital plant. A substantial part of their expense, therefore, is for interest on investment in and maintenance of capital plant. The amount of invested capital for these utilities is a fairly good index of total expenses and thus a good measure for setting rates.

The situation for a motor bus company is different. Ordinarily the only fixed capital investment is for buses and a garage--a relatively small part of the cost of doing business. For example, the Grand Rapids Motor Coach Company, for the nine months ending March 31, 1952, had total expenses of $1,400,000. Of this total only $120,000, about 8½ per cent, went for depreciation on the garage and buses. The balance went for salaries and wages, motor fuel, maintenance of buses, and other variable items.

Expenses for other types of utilities do not fluctuate rapidly, and rate adjustments can be made relatively slowly without serious damage to the companies. Rates for a motor bus company must be changed rapidly, however, or the company can be ruined financially within a few months. The operating ratio method permits rapid adjustments in rates as passenger revenues and expenses fluctuate.

Term of the Agreement. The term of the franchise should be long enough so that the company can finance the necessary facilities and furnish proper service at reasonable rates without hampering public control of the utility. State laws generally limit franchises to a maximum of 30 years and a term from 20 to 30 years usually makes good sense for a public utility franchise. A term of less than 15 years serves no public purpose except as a temporary measure or to prepare for municipal acquisition.

The indeterminate franchise has been widely discussed by utility experts, and it has been used by many cities. It fixes no particular term and is subject to revocation by the city upon due notice. The value of such a franchise is limited by the actual ability of the city to acquire the property.

Public Supervision. The city should have the right to determine standards of service. For utility companies serving an area larger than the city, the city usually can rely on service standards already enforced by the state utility commission supplemented by such local regulations as are necessary. The franchise should make a specific reference to state commission standards.

For distinctly local utilities such as transportation the franchise may be the only regulatory device except for state licensing of vehicles. In such a case, the franchise should extablish the right of the city to control routes, frequency of trips and type of equipment used. Ordinarily, the franchise should not include the

details, but should describe the methods and standards by which routes will be established, abandoned, or changed in any way. Since transit service and costs are vitally affected by automobile traffic, cities should seek unified regulation to include fares, service, and vehicular traffic in the streets. Automobile travel within the cities must give recognition to the needs of mass transportation.

The city's right to inspect the plant and other utility properties, to require regular financial and operations reports, and to audit the company's books should be established in the franchise. The city also should review company policies relating to proposed extensions, improvements, and other standards of local service before they become effective.

Municipal Acquisition. The franchise should include specific terms for termination of the contract and for acquisition of the properties for public operation. The right to terminate the franchise may best be fixed for any time after five or at the most 10 years, subject to prior notice of two years. Some city officials feel that cities should have the right to acquire a privately owned utility at any time upon reasonable notice. Such a provision, however, may encounter strong resistance from the utility company and may result in other franchise provisions being less desirable from the point of view of the city.

The important factor in municipal acquisition is the basis of compensation for the utility company. Provisions for compensation in case of municipal acquisition should be defined carefully in the franchise so that the actual dollar amount can be ascertained from the accounts and records of the company, and the financial rights of investors should be explicitly protected. If possible, this amount should be based upon the prudent investment rate base described above. Compensation that is based on appraisal by a specially constituted valuation board should be avoided since such provisions inevitably lead to disagreement and litigation and restrict the free choice of the city.

Free or Privileged Service. Franchises frequently contain provisions for free or privileged service to the city. This policy is inconsistent with the theory of regulation and makes it more difficult to control costs of doing business. The city should pay for all services it receives at the same rate as other consumers. Furthermore, utilities ordinarily should not be required to render service which otherwise would be met through the general revenues of the city such as construction and maintenance of streets, installation or maintenance of street lights, construction of general purpose bridges, and so on. Such a policy does not relieve the taxpayer of tax burdens and merely increases the costs of the utility services he buys.

On the other hand, the utility should pay local property and business taxes and the extra expenses incurred by the city as a result of utility operations, including such items as replacement of pavement cuts, inspection of installations and service connections, inspection of services, and regulation of the utility under the franchise. In some cases, property and business license taxes may be waived in favor of a utility gross receipts tax but such a tax should not place an unfair burden on the utility. As a general rule, the utility can be required to pay its share of the general cost of local government expenses plus all special charges resulting from operations.

Administration of the Franchise

Franchises do not operate automatically, and some type of organization and procedures must be established to make certain that the public receives the service called for in the document. In cities over 100,000 population a separate city department or division should have responsibility for the administration of all city

franchises under the direction of the chief administrative officer and within the limits of applicable state law. A continuing program of regulation is especially important in the many cities where it is almost impossible to revise franchises because the cities lack sufficient authority.

Typical Organizations for Utility Regulation. Several of the larger cities have special organization units responsible for the administration of all local utility franchises, including Long Beach and Los Angeles, Calif.; Washington, D.C.; New Orleans, La.; Kansas City, Mo.; and Dallas, Houston, and San Antonio, Tex. These special units control franchised utilities and other special privilege businesses. The number of employees ranges from one technical employee in Long Beach and Kansas City to 39 employees in Los Angeles; annual expenditures range from $16,000 in Long Beach to over $200,000 in Los Angeles. The responsibility and authority of these units vary with the number and type of utilities regulated.

Four of the cities have separate departments responsible for utility regulation: Dallas, Houston, New Orleans, and San Antonio. In Dallas and San Antonio the public utilities department is headed by a supervisor of public utilities appointed by the city manager. In Houston the public service department is headed by a director appointed by the mayor. In New Orleans, a commission - governed city, the department of public utilities is under the direction of the elected commissioner of public utilities. The recently adopted charter for New Orleans (effective in 1954) places public utility regulation in a department of public utilities with the director appointed by the mayor.

In Los Angeles and Long Beach a board controls utility operations. Los Angeles has a five-member citizen board appointed by the mayor which directs a department of public utilities and transportation. In Long Beach, the bureau of public utilities is composed of four councilmen and the city manager to supervise both publicly and privately-owned utilities with a chief engineer as the operating official.

In Kansas City utility regulation is divided between the public works and law departments; a utilities engineer and an assistant city attorney cooperate to advise the city council on utility questions and to prepare and present rate cases before the city council and the state commission.

The public utilities commission of the District of Columbia is the only regulatory agency for the district and is comparable in status and activities to a state utility commission. It is composed of three full-time commissioners, including the engineer commissioner of the District and two others appointed by the President.

In general these eight cities work in five areas of utility regulation: investitation of franchise applications, preparation of valuation and rate cases, audit of cost and accounting records, physical inspection of utility properties, and inspection of transportation services. The following sections discuss good procedures for regulating utilities within these five areas and draw on the experiences of the cities surveyed for this report.

Investigation of Franchise Applications. When utility companies apply to city councils for new franchises or franchise renewals, the utility usually presents a written document to the council for signature. Too often the council does not have the information on which to evaluate the application and to suggest any necessary changes in the franchise.

The applicant for a franchise must prove public convenience and necessity--that is, the essential need for the service. In addition the reputation and character of the applicant must be sound, and he must have the financial ability to carry on the enterprise. A good procedure in franchise investigation is illustrated by the Long Beach Bureau of Public Utilities in the steps taken to investigate franchise applications:

1. The utility company presents an application to the city council for consideration.

2. The council refers the application to the department to determine if it merits consideration and for investigation.

3. The department investigates the application, checks the need for the service, and prepares a tentative draft of the franchise.

4. The city attorney puts the franchise in proper legal form to meet federal, state, and local laws.

5. The applicant reviews the draft and notes any changes he wants to make.

6. Representatives of the department meet with the applicant to reconcile most of the differences.

7. The city attorney prepares a final draft of the franchise and presents it to the city council for review, further hearings if needed, and final adoption.

Preparation of Valuation and Rate Cases. One of the most important jobs of the city in utility regulation is to work with the state commission in renegotiating the rate base, rate of return, and rate schedules to be applied. If the city does not appear to testify, the commission hears only utility representatives and its own staff and must assume that the city is satisfied.

Staff members of the regulatory units can appear as expert witnesses when they are properly qualified, and they should have the facts and evidence if their testimony is to bear weight. The city should work closely with the state utility commission staff to permit a full and orderly presentation of the facts and to avoid duplication of effort.

The San Antonio department of public utilities has a systematic procedure for preparing valuation and rate cases for hearings before the city council. This procedure, which can be adapted by other cities in preparing cases for hearings before state commissions, is as follows:

1. The department makes a complete audit of the books of the organization studying all acounts for additions and deletions and accounting methods used. Utilities usually are required to follow nationally accepted uniform accounting procedures.

2. City and utility representatives confer to reduce the area of the disagreement and define the issues left unsettled.

3. The department completes its recommendations and transmits them to the city council.

4. The council meets with utility representatives to discuss the points of disagreement and allow the utility an opportunity to present its case.

5. The council (or state commission) conducts a formal public hearing where evidence is presented by both sides, and citizens are allowed to speak.

6. The council (or state commission) makes its final decision by granting or rejecting the utility's request or allowing some intermediate rate.

Audit of Cost and Accounting Records. The systematic review and audit of utility financial records is necessary to keep the rate base, the rate of return, and rate schedule up to date. The franchise ordinances in some cities require that utilities make all records, accounts, and operating reports available for city review during business hours.

The Dallas public utility department and the Long Beach bureau make periodic audits of the books of the utilities to verify figures essential for proper regulation. Long Beach requires local utilities to file with the department complete tariff schedules, operating statements, balance sheet, reports of failures of service, and so on. The department draws off certain data and places them in statistical files to permit automatic checking of key operating conditions. In Kansas City audits by state commission staffs for rate adjustments have been frequent enough to eliminate the necessity for city audits of utility companies.

Physical Inspection of Utility Properties. Occasional inspection of utility properties is needed to assure standards of safety and good service. Most of the reporting cities makes spot checks and other tests of gas and water meters for accuracy. Usually meters which are being put into service for the first time are tested along with those which customers think register incorrectly. In Dallas the utility supervisor spot checks gas, electric, and street car lines to determine the need for new installations and inspects installation or construction work to see that specifications are followed. In Houston the department inspects all utility properties periodically and spot checks physical inventories when a rate adjustment is pending. In Los Angeles the department of public utilities and transportation makes continuous tests of the heating value of the natural gas supplied to the city and periodic tests of chemical analysis and gravity. In addition, most of these cities investigate customer complaints and recommend remedial action.

Inspection of Transportation Services. Cities need to inspect and control public transportation services much more closely than other types of utilities. Service can deteriorate quickly because of over-crowding, poorly trained and discourteous operators, and poor scheduling. In addition, the service needs to be checked constantly to see if new routes are needed or if existing routed should be abandoned, to revise schedules, to determine the need for new equipment, and to coordinate transit service with automobile traffic. Public transit must have priority over automobiles, especially during rush hours.

In San Antonio representatives of the public utility department rode city buses in rush hours during the morning and afternoon for a period of several days to investigate complaints of overcrowding and lack of courtesy on the part of the drivers. The inspectors sat near the driver to note his attitude and actions. Each passenger entering or leaving the bus was recorded along with the general location of the bus at the time. They were then able to determine points of loading along the route as well as the point of heaviest load.

In New Orleans street cars and bus schedules are checked, and waiting stations are inspected to see that the public has proper accommodations. Railroad and bus terminals, ferries, and ferry landings are also inspected regularly to check sanitary conditions. Whenever facilities are inadequate, the proper persons are notified and the condition is corrected.

Departmental representatives must meet frequently with representatives of the police and traffic engineering departments to coordinate transit service with automobile traffic controls. In Long Beach, for example, the bureau of public utilities has developed and is installing a "pull-through" type bus stop on a number of major streets to reduce traffic congestion and pedestrian accidents at intersections. In Los Angeles the public utilities department licenses all passenger-carrier drivers after a careful investigation of the driver's criminal and traffic records. Franchises and permits in Long Beach require performance bond; the amount varies with the type of operation.

Recent franchises and permits provide that the grantee must carry a prescribed amount of liability insurance, and some require that the city or city employees be co-insured. Some franchises permit the grantee to self-insure if he meets certain financial limitations. In Los Angeles insurance companies must be approved by the city before they can cover carriers operating under franchises. The city also determines the limit of the liability and property damage insurance for each carrier. (See MIS Report No. 12, Municipal Regulation of Taxicabs, for more detailed discussion of the licensing and regulating of taxis.)

What the Small City Can Do. The smaller city may find it difficult to justify a full-time staff to regulate utilities, but utility regulation should not be neglected even in the smallest cities. Many of the problems of utility control can be worked out through person-to-person contacts between the city's chief executive and the manager of the local utility. In these contacts the city's representative should have access to complete, accurate, and up-to-date information on the utility operators. This control can be assured by the following policy:

1. Write a sound administrable public utility franchise of the type outlined above. The clear, concise, and measurable definition of the rate base and rate of return will help the small city in regulating adequately rates and rate schedules.

2. Require periodic accounting and operations reports from the utility. Such reports can be reviewed by the finance director and by the city engineer to check conformance with state and local regulations on utility accounting and local service extension and construction requirements. These reports also help in coordinating utility-city operations on the city streets by keeping the city engineering and inspection teams informed of new or relocated underground structures.

3. Require an annual audit of the company's books by a qualified firm of public accountants appointed by or with the consent of the city council. Such an audit should be completed as soon after the fiscal year as possible. The auditor selected should have full knowledge of local, state, and federal regulations for utility accounting methods. In some states, the state commission may make an adequate audit of the financial affairs of utilities serving the city; if so, a separate audit by the local governing body is not necessary.

4. Check the rate base, actual rate of return, and rate schedules of the utility at regular intervals to assure conformance to franchise requirements. This should be done at least annually by the city finance officer.

5. Work with the state municipal league in preparing material for rate hearings before the state public utilities commission. Early in 1952, 27 Colorado cities participated in hearings before the state commission to protest proposed telephone rate increases and obtained substantial savings in telephone bills for Colorado residents. With the support of the cities, the League was able to call in utility rate consultants and organize a case for presentation (See Public Management, August, 1952, p. 183). Cities in other states also have worked effectively through their municipal leagues to present cases before state commissions.

6. Large as well as small cities can make good use of the cooperative public utility bureau that was recently organized to provide utility consulting services on a cost-of-service basis. The consulting service has been established on a trial basis and will be incorporated at the end of 1953 if cities show sufficient interest in its program. Further information about this consulting service may be obtained from John Bauer, 280 Broadway, New York City (see Public Management, January, 1953, pp. 12-13).

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